

Market Weekly Review

Week ending 2 March 2014

- Equities stage rally in February
- Renminbi posts record decline against the US dollar
- US housing market shows strength amidst bank cutbacks
- European Commission raises forecast for euro area growth
- Putin orders Russian troops into the Crimea

The S&P 500 closed at record highs on consecutive days at the end of last week. The index closed at a new record high of 1,854 on Thursday, before adding 0.3% the following day to finish the week at 1,859 points. Global equities added 1.0% over the week, led by the US, while stocks in emerging markets gained 0.8%. Fixed income markets were in positive territory led by emerging market bonds (+1.8%), while commodities ended the period flat.

Reflecting on February's market returns, with equities, bonds and commodities all posting gains for the first time since July last year, despite the pull back in prices at the start of the month. Benchmark equity indices in all 24 developed nations advanced in February, according to data from Bloomberg. Commodities were boosted by gains in coffee and sugar prices as a result of drought conditions in Brazil, while gold prices rallied for the second month in a row to 1,326 dollars per ounce. In terms of the fundamental backdrop, fourth quarter earnings season in the US saw 74% of companies beat analysts' expectations for earnings, according to data compiled by Bloomberg.

The Chinese renminbi declined by 1.4% against the US dollar in February, the biggest monthly drop on record. The depreciation of the renminbi, which trades in a narrow band against the US dollar, was interpreted by some analysts as an attempt by China's authorities to discourage the long renminbi carry trade - investors speculating that the renminbi will appreciate against the US dollar over time. Meanwhile China's official Purchasing Managers' Index slumped to an eight month low in February.

The index fell to 50.2 - just above the 50 threshold that marks an expansion in activity - albeit 0.1 ahead of the market's forecast.

In the US, the Case-Shiller 20 City (property) index rose by 0.8% month-on-month in December versus 0.6% expected. Sales of new homes rebounded strongly in January, up by 9.6% versus -3.4% expected. Despite the news from the housing market, JP Morgan is set to shed 8,000 jobs, principally in its mortgage arm, following the announcement of similar plans by fellow banks Wells Fargo and Bank of America. The redundancies are the result of lower demand for refinancings.

The European Commission raised its forecast for euro area growth by 0.1% for both 2014 and 2015 last week, to 1.2% and 1.8% respectively. Meanwhile fourth quarter German GDP, published on Tuesday, registered 0.4% quarter-on-quarter, up 0.1% from Q3. New Italian Prime Minister Matteo Renzi won a vote of confidence in Italy's Senate on Tuesday, but by a smaller margin than predecessor Enrico Letta. Later the same day Mr. Matteo won a similar vote in Italy's lower house by 378 votes to 220, to complete the formation of his new government. Mr. Matteo has already outlined plans to reform Italy's labour market, after unemployment rose to a record high of 12.9% in January.

Finally, Russia has seized control of Ukraine's Crimea region, after President Vladimir Putin asked parliament to ratify the use of force to protect the region's ethnic Russian population over the weekend. Russia ceded control of the Crimea to Ukraine in 1954 but around 60% of the region's population remain Russian speakers. Ukraine has responded by putting its military on full combat alert and calling for support from the US and its allies. Plans to provide financial aid to Ukraine's ailing economy by the European Union and the International Monetary Fund have been put on hold amidst escalating military tensions.

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Asset Class/Region	Index	Currency	Currency returns			
			Week ending 28 Feb 2014	Month to date	YTD 2014	12 months
Developed Market Equities						
United States	S&P 500 NR	USD	1.3%	4.5%	0.9%	24.6%
United Kingdom	MSCI UK NR	GBP	-0.4%	4.9%	1.2%	10.5%
Continental Europe	MSCI Europe ex UK NR	EUR	0.9%	4.9%	3.3%	20.5%
Japan	Topix TR	JPY	-0.8%	-0.7%	-6.9%*	26.6%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	0.8%	4.5%	-0.8%	-1.0%
Australia	S&P/ASX 200 TR	AUD	-0.2%	5.0%	1.8%	10.6%
Global	MSCI World NR	USD	1.0%	5.0%	1.1%	21.7%
Emerging Market Equities						
Emerging Europe	MSCI EM Europe NR	USD	-2.0%	2.0%	-7.2%	-10.5%
Emerging Asia	MSCI EM Asia NR	USD	1.2%	3.3%	-1.7%	-0.7%
Emerging Latin America	MSCI EM Latin America NR	USD	0.0%	1.8%	-7.8%	-20.8%
BRICs	MSCI BRIC NR	USD	0.3%	2.3%	-5.6%	-8.7%
MENA countries	Dow Jones MENA TR	USD	0.8%	4.5%	8.7%	32.7%
South Africa	MSCI EM South Africa NR USD	USD	4.7%	12.9%	-4.2%	-16.4%
India	Nifty Fifty TR	USD	2.5%	4.4%	-0.2%	-1.7%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	0.8%	3.3%	-3.4%	-6.0%
Bonds						
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4%	0.3%	1.9%	-1.2%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	0.9%	0.5%	2.7%	-6.1%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	0.7%	1.0%	2.9%	1.4%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	0.7%	2.0%	2.7%	8.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.5%	0.2%	2.4%	-0.8%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	0.6%	0.3%	2.6%	3.4%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.4%	0.7%	2.9%	5.5%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.2%	0.6%	1.9%	4.3%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	1.0%	4.1%	2.5%	18.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.2%	0.2%	1.1%	2.1%
Australian Government	JP Morgan Australia GBI TR	AUD	0.9%	0.2%	1.4%	1.3%
Global Government Bonds	JP Morgan Global GBI	USD	0.7%	1.2%	2.9%	0.9%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.7%	1.4%	2.5%	2.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	USD	1.0%	4.0%	3.8%	15.7%
Emerging Market Bonds	JP Morgan EMBI+	USD	1.8%	3.7%	2.1%	-4.2%

* Estimate

Source: Bloomberg

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Property						
US Property Securities	MSCI US REIT NR	USD	1.4%	4.9%	9.3%	5.5%
Australian Property Securities	S&P/ASX 200 A-REIT	AUD	-1.2%	3.3%	3.8%	-1.9%
Asia Property Securities	S&P Asia Property 40 NR	USD	-1.1%	-0.6%	-7.1%	-4.5%
Global Property Securities	S&P Global Property USD TR	USD	0.4%	3.8%	2.9%	2.3%
Currencies						
Euro		USD	0.4%	2.3%	0.4%	5.7%
UK Pound Sterling		USD	0.8%	1.9%	1.1%	10.4%
Japanese Yen		USD	0.7%	0.3%	3.5%	-9.1%
Australian Dollar		USD	-0.6%	1.9%	0.1%	-12.6%
South African Rand		USD	1.6%	3.4%	-2.4%	-16.1%
Swiss Franc		USD	0.9%	3.0%	1.4%	6.4%
Chinese Yuan		USD	-0.9%	-1.4%	-1.5%	1.2%
Commodities & Alternatives						
Commodities	RICI TR	USD	0.0%	5.4%	4.1%	-0.4%
Agricultural Commodities	RICI Agriculture TR	USD	1.4%	7.2%	6.3%	-5.1%
Oil	ICE Crude Oil CR	USD	-1.1%	0.7%	-2.4%	-3.3%
Gold	Gold Spot	USD	0.2%	6.6%	10.0%	-16.0%
Hedge funds	HFRX Global Hedge Fund	USD	0.5%*	1.5%*	1.2%*	5.5%*

* Estimate

Source: Bloomberg

For more information, please contact your adviser or alternatively contact:

Financial Partners Ltd.

泛柏資產管理有限公司
24/F, Kinwick Centre
32 Hollywood Road
Central, Hong Kong

Tel +852 2827 1199

Fax +852 2827 0270

client.services@f-p.hk

www.f-p.hk

A Member of Wealthnet

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